

Message Text

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PAGE 01 THE HA 05436 291006Z
ACTION EUR-12

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PARIS ALSO FOR USOECD

E.O. 11652: N/A
TAGS: EFIN, NL
SUBJECT: NETHERLANDS CENTRAL BANK TAKES MEASURES TO SUPPORT GUILDER

1. NETHERLANDS CENTRAL BANK HAS RAISED INTEREST RATES AND SOLD DEUTCHE MARKS TO SUPPORT THE GUILDER AGAINST THE MARK IN RECENT DAYS, BUT PRESSURE AGAINST THE GUILDER CONTINUES. THE PRESSURE IS ATTRIBUTED TO SPECULATION OF AN IMMINENT DM REVALUATION TO ACCOMMODATE AN EVENTUAL RETURN OF THE FRENCH FRANC TO THE SNAKE ARRANGEMENT AS WELL AS THE OUTLOOK FOR ANOTHER JUMP IN GERMANY'S CURRENT ACCOUNT SURPLUS; TOGETHER THESE HAVE CAUSED A DRAMATIC INCREASE IN DEMAND FOR THE GERMAN CURRENCY ON THE DUTCH MARKET AND HAVE KEPT THE DM AT ITS FLOAT CEILING OF 108.70 GULDERS TO 100 DM. TO SUPPORT THE GUILDER, THE NETHERLANDS BANK HAS SOLD DM HOB-INGS WORTH ABOUT 1.56 BILLION GULDERS (SIX PERCENT OF THE BANK'S RESERVES) IN TEN DAYS WITHOUT STEMMING THE TIDE.

2. TO SUPPLEMENT ITS DM SALES. THE NETHERLANDS BANK ALSO RAISED INTEREST RATES SEPT. 25 BY A FULL PERCENT TO 5.5 PERCENT FOR INTERBANK MONEY, SIX PERCENT OF SECURED LOANS, AND UNCLASSIFIED

UNCLASSIFIED

PAGE 02 THE HA 05436 291006Z

6.5 PERCENT FOR PROMISSORY NOTES. IN THE FACE OF THE FOREIGN EXCHANGE MARKET DEVELOPMENTS THIS MOVE WAS NOT A SURPRISE, BUT THE GOVERNMENT'S RESPONSE WAS UNEXPECTED AND CONTRARY TO ITS ECONOMIC STIMULUS PACKAGE ANNOUNCED WITH LAST WEEK'S 1979 BUDGET MEMORANDUM.

3. COMMENT: THE SEPT. 27 ANNOUNCEMENT BY THE FINANCE MIN-

ISTRY THAT THE GOVERNMENT IS NOT CONSIDERING A DEVALUATION
HAS SO FAR NOT HAD MUCH IMPACT ON THE AMSTERDAM MONEY MARKET
AS DEALERS CONTINUE TO SPECULATE ON A DM RISE. THE IMMEDIATE
OUTLOOK THEREFORE IS THAT BANK RATES MAY WELL RISE AGAIN AND
THE CENTRAL BANK MAY POSSIBLY FIND ITSELF SELLING STILL MORE
DM TO DEFEND THE GUILDER. NEVERTHELESS, THIS PROSPECT SEEMS
NOT YET TO HAVE DIMMED DUTCH DETERMINATION TO MAINTAIN THE
GUILDER'S POSITION IN THE SNAKE.
JOSEPH

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